

# London Sumatra Indonesia Tbk (LSIP IJ)

## Still Positive but Below Expectation

LSIP posted 1H20 net profit of IDR92 billion or jumped 778% YoY, contributing to 32% of our 2020F revised target but below our expectation by around 24%. ASP increase of 21% YoY, forex gain, and lower expenses drove an improvement in margins despite lower CPO production. We cut our 2020F estimates because of a modest 1H20 performance. However, we still maintain BUY recommendation for LSIP.

### Weak Results but Still Positive

LSIP posted 1H20 net profit of IDR92 billion, which only contributed to about 32% of our 2020F target (revised target). This performance was mainly due to the lower-than-expected sales volume as a result of a declining CPO production. But we still see 1H20 in a positive way because ASP increase of 21% YoY, forex gain, and lower expenses impact to better margins. LSIP's net profit is below our expectation (-24%) in 1H20 and we are still optimistic that LSIP is capable of attaining net profit to IDR284 billion this year.

### Lower Production and Replanting Program

LSIP's 1H20 FFB and CPO production declined by 7% and 14% YoY respectively. LSIP reported lower extraction rate at 23.0% in 1H20 (vs. 23.2% in 1H19). In our view, this was mainly due to lower yields on the back of the dry weather's impact on their oil palm trees with average age of 16 years. Moreover, LSIP's target to replant and carry out new planting of about 1,000 ha in 2020 will give a long-term positive sentiment.

### Revise Down Our Estimates for 2020F

We slash our estimates for 2020F revenue by 4.4% YoY and net profit by 4.1% YoY (in page 4), considering: 1) 2H20 production can't offset the decline of 1H20 production and will make 2020 CPO production fall around 7% YoY; 2) heavy rains in 4Q20 could affect the plantation productivity. However, 2020F ROE is expected to slightly rise to 3.3%.

### Maintain BUY Rating with Higher TP of IDR1,200

We still maintain BUY recommendation for LSIP with TP of IDR1,200 (previously IDR1,000) because: 1) CPO price will hover around MYR2,400-MYR2,800/tonne that will drive higher LSIP's ASP in 2H20; 2) higher domestic consumption of biodiesel this year as a positive momentum for the industry. Our new TP is based on forward P/E of 24.2x (+0.75 SD of its 10-year historical mean), it implies 2020F P/E of 28.9x. LSIP currently is trade at 21.2x P/E or a 46% discount from P/E sector at 39.7x.

### London Sumatra Indonesia Tbk | Summary

	2019A	2020F	2021F	2022F
Revenue (IDR bn)	3,699	3,719	4,099	4,320
Growth (%)	-8.0	0.5	10.2	5.4
EBITDA (IDR bn)	687	709	843	926
Net Profit (IDR bn)	254	284	342	409
EPS (IDR)	37	42	50	60
Growth (%)	-23.4	11.7	20.4	19.4
P/E (x)	40.2	28.9	23.9	20.0
P/BV (x)	1.2	1.0	0.9	0.9
EV/EBITDA (x)	15.7	12.0	9.6	8.3
ROE (%)	3.0	3.3	3.9	4.5
DER (%)	20.3	23.6	24.7	28.0
Net Debt (IDR bn)	-1,132	-1,426	-1,764	-2,252

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

## Buy

Target Price (IDR)	1,200
Consensus Price (IDR)	1,154
TP to Consensus Price (%)	+4.0
vs. Last Price (%)	+21.2

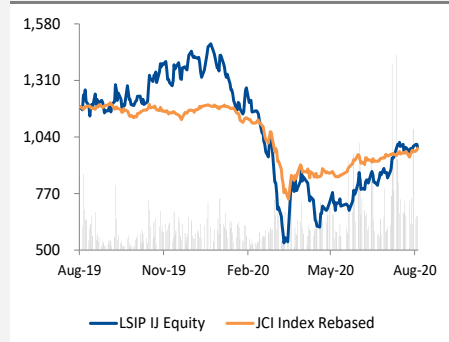
### Shares Data

Last Price (IDR)	990
Price Date as of	Aug 12, 2020
52 wk Range (Hi/Lo)	1,490/498
Free Float (%)	40.4
Outstanding Shares (mn)	6,823
Market Cap (IDR bn)	6,754
Market Cap (USD mn)	456
Avg. Trd Vol - 3M (mn)	33.9
Avg. Trd Val - 3M (bn)	30.0
Foreign Ownership (%)	7.3

### Agriculture Plantation

Bloomberg	LSIP IJ
Reuters	LSIP.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-31.7%	17.2%	36.6%	-15.4%
Rel. Ret.	-15.0%	13.1%	22.5%	0.9%

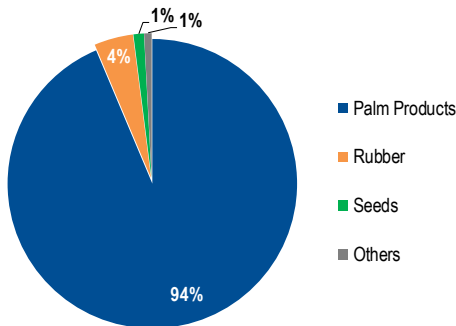


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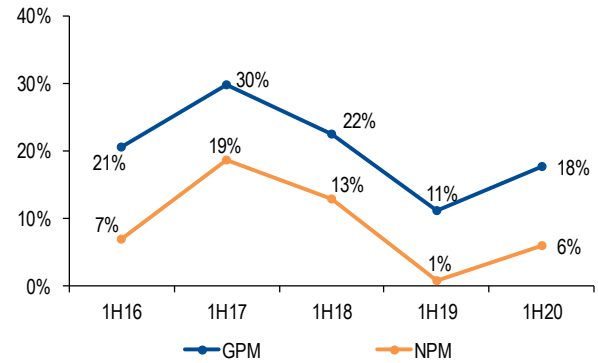
## Performance Highlights in Charts

### 1H20 Revenue Breakdown



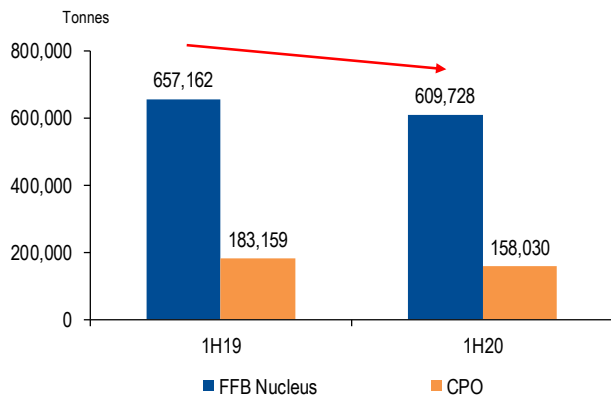
Source: Company Data, NHKSI Research

### Margin Ratios



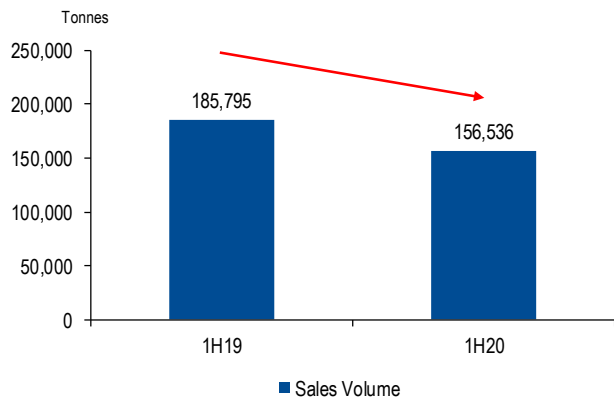
Source: Company Data, NHKSI Research

### FFB & CPO Production



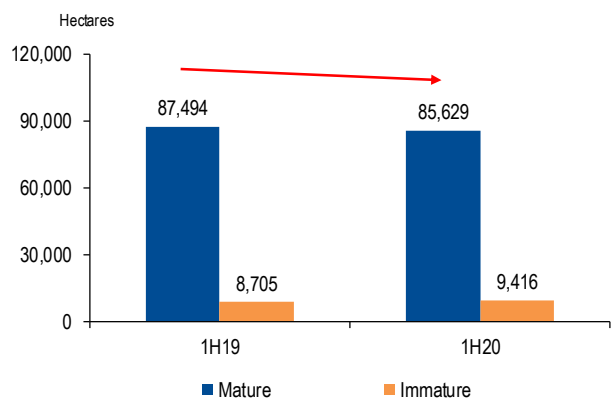
Source: Company Data, NHKSI Research

### CPO Sales Volume



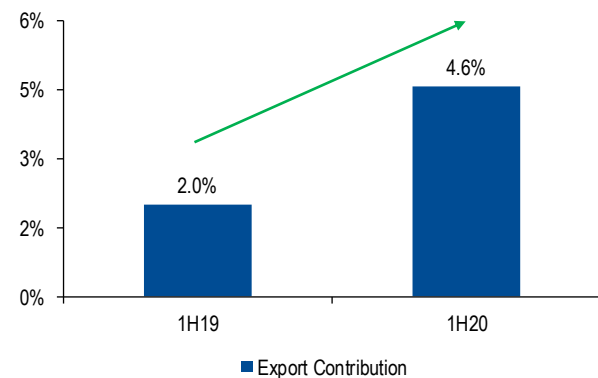
Source: Company Data, NHKSI Research

### Nucleus Planted Area of Oil Palm



Source: Company Data, NHKSI Research

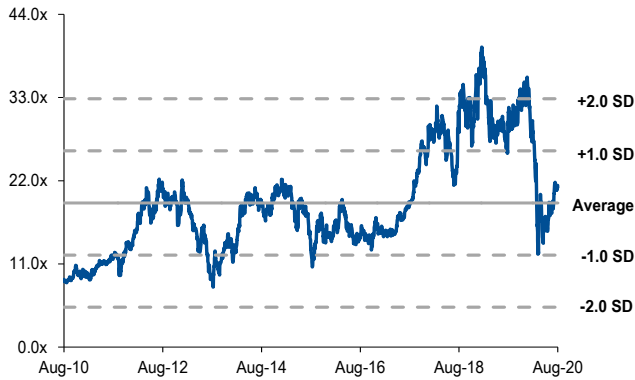
### Export Contribution to Total Sales



Source: Company Data, NHKSI Research

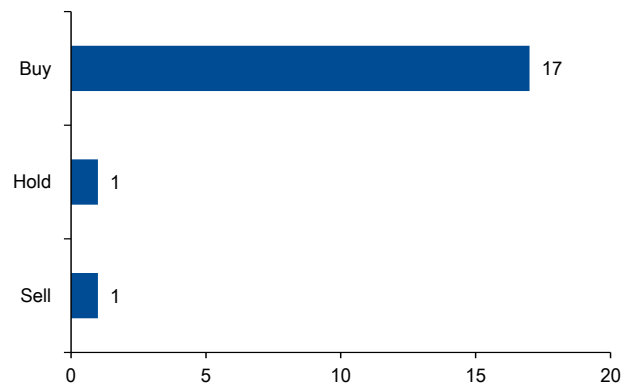
## Valuation & Other Highlights in Charts

### 10-Year Forward P/E Band



Source: Bloomberg, NHKSI Research

### Recommendation by Analysts



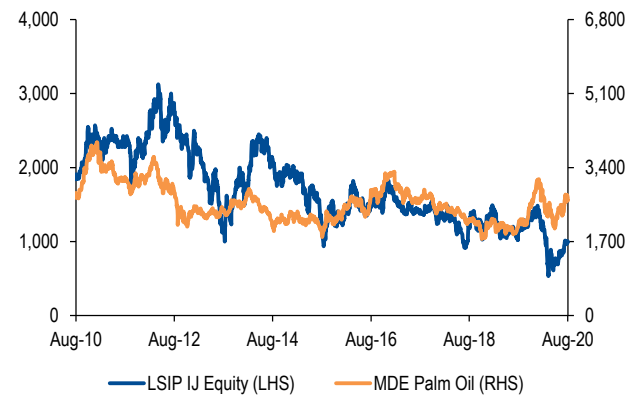
Source: Bloomberg, NHKSI Research

### 10-Year LSIP & USDIDR Movement



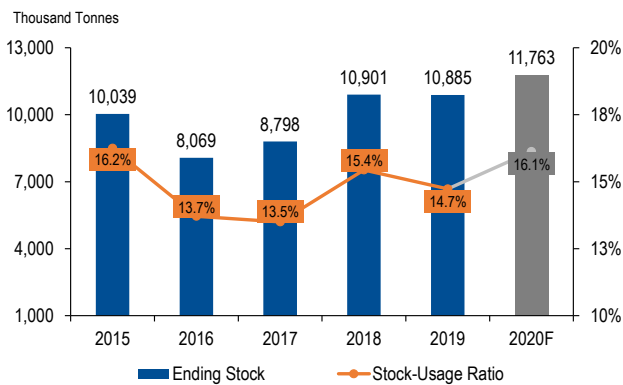
Source: Bloomberg, NHKSI Research

### 10-Year LSIP & CPO Prices Movement



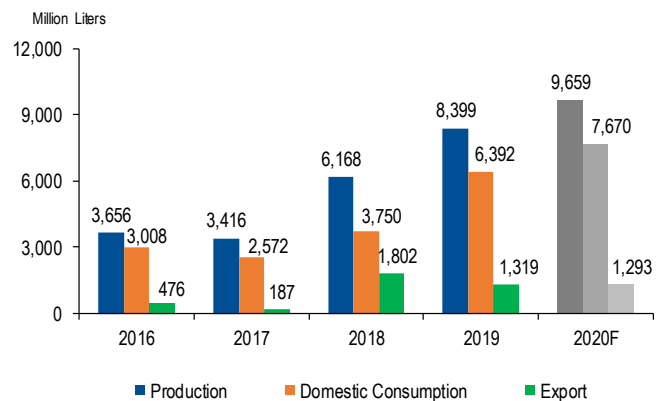
Source: Bloomberg, NHKSI Research

### Global CPO Inventory



Source: USDA, NHKSI Research

### Indonesia's Biodiesel Statistics



Source: APROBI, NHKSI Research

## Financial Review

## Quarterly Review

	2Q19	3Q19	4Q19	1Q20	2Q20					3Q20E
					Actual	Estimate	YoY %	QoQ %	Surprise %	
<b>Income Statement</b>										
Revenue	668	990	1,113	810	756	758	13.2	-6.7	-0.3	1,035
Gross Profit	40	118	268	152	124	108	211.5	-17.9	15.2	111
EBIT	-49	54	265	86	-9	54	-82.4	-110.1	-116.1	76
EBITDA	44	151	363	185	88	151	100.7	-52.2	-41.7	178
Net Profit	-28	42	201	81	11	40	-138.9	-86.5	-72.5	76
<b>Margin</b>										
Gross Margin	6.0	11.9	24.0	18.7	16.5	14.2	10.5	-2.3	2.2	10.7
EBIT Margin	-7.4	5.4	23.8	10.6	-1.1	7.1	6.3	-11.7	-8.2	7.3
EBITDA Margin	6.6	15.3	32.6	22.8	11.7	20.0	5.1	-11.1	-8.3	17.2
Net Profit Margin	-4.2	4.2	18.1	10.0	1.4	5.2	5.7	-8.6	-3.8	7.3

Unit: IDR bn, %

Source: Company Data, NHKSI Research

## Earnings Revisions

		2020F	2021F	2022F
<b>Income Statement</b>				
Revenue	-Revised	3,719	4,099	4,320
	-Previous	3,892	4,105	4,333
	-Change %	-4.4	-0.1	-0.3
	-Consensus	3,503	3,724	4,007
Gross Profit	-Revised	589	734	830
	-Previous	665	741	863
	-Change %	-11.3	-0.9	-3.8
	-Consensus	688	799	876
EBIT	-Revised	317	437	513
	-Previous	378	438	544
	-Change %	-16.0	-0.2	-5.6
	-Consensus	400	514	571
EBITDA	-Revised	709	843	926
	-Previous	783	871	999
	-Change %	-9.4	-3.2	-7.3
	-Consensus	929	926	1,010
Net Profit	-Revised	284	342	409
	-Previous	296	343	423
	-Change %	-4.1	-0.1	-3.2
	-Consensus	326	427	488
<b>Margin</b>				
Gross Margin	-Revised	15.8	17.9	19.2
	-Previous	17.1	18.1	19.9
EBIT Margin	-Revised	8.5	10.7	11.9
	-Previous	9.7	10.7	12.5
EBITDA Margin	-Revised	19.1	20.6	21.4
	-Previous	20.1	21.2	23.1
Net Profit Margin	-Revised	7.6	8.4	9.5
	-Previous	7.6	8.3	9.8

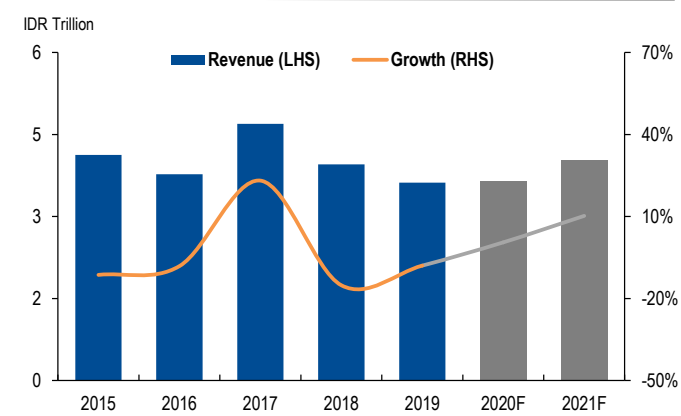
Unit: IDR bn, %

Source: Company Data, Bloomberg, NHKSI Research

## Company Overview

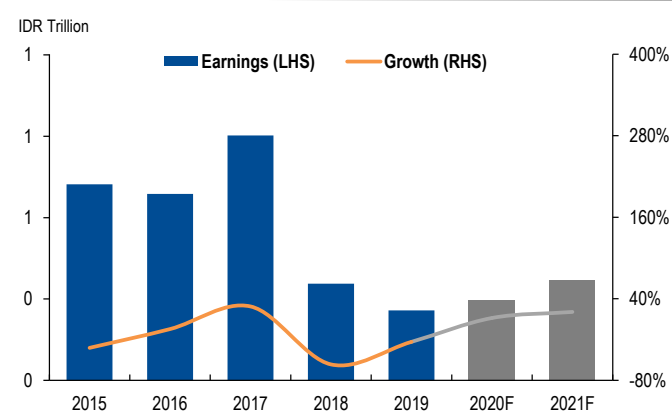
London Sumatra Indonesia Tbk (LSIP) was founded in 1906. It was taken over by Harrison & Crossfield in 1994, putting it in the same group as New Britain Palm Oil in Papua New Guinea and Golden Hope in Malaysia (now part of Sime Darby). LSIP was listed in July 1996. In 2007, PT Salim Ivomas Pratama Tbk (SIMP) and Indofood Agri Resources acquired a 64.4% stake in LSIP. LSIP is the fourth-largest plantation public company with a market cap of IDR6.7 trillion with Astra Agro Lestari Tbk (AALI) ranked first. At present, the total area of LSIP's oil palm nucleus plantations is 115,665 hectares.

### Revenue & Growth Movement



Source: Company Data, NHKSI Research

### Earnings & Growth Movement



Source: Company Data, NHKSI Research

### Southeast Asia Peers Comparison

	Market Cap (USD mn)	Total Asset (USD mn)	Total Sales* (USD mn)	Net Profit* (USD mn)	NPM* (%)	ROE (%)	P/E (x)	P/BV (x)
<b>Indonesia</b>								
ASTRA AGRO LESTARI TBK	1,270	1,948	1,257	39	3.1	3.0	33.4	1.0
SAWIT SUMBERMAS SARANA TBK	531	855	237	-31	-13.1	-11.2	N/A	2.1
LONDON SUMATRA INDONESIA TBK	459	738	256	23	9.1	4.0	20.1	0.8
SALIM IVOMAS PRATAMA TBK	346	2,521	979	-37	-3.8	-3.9	N/A	0.3
DHARMA SATYA NUSANTARA TBK	264	839	440	20	4.7	5.3	13.2	1.0
SAMPOERNA AGRO TBK	230	684	245	4	1.6	0.8	59.3	0.8
<b>Malaysia</b>								
SIME DARBY PLANTATIONS BHD	8,461	6,969	2,909	76	2.6	1.7	88.3	2.7
IOI CORPORATION BHD	6,770	3,988	1,802	98	5.5	4.5	70.4	3.2
KUALA LUMPUR KEPONG BHD	5,953	4,870	3,696	101	2.7	4.0	59.5	2.5
GENTING PLANTATIONS BHD	2,137	2,068	532	46	8.7	4.3	46.7	1.9
IJM PLANTATIONS BHD	1,370	5,435	1,586	60	3.8	2.6	23.2	0.6
FGV HOLDINGS BHD	1,033	4,373	3,066	-92	-3.0	-9.0	N/A	1.1
<b>Singapore</b>								
WILMAR INTERNATIONAL LTD	21,356	47,049	43,117	1,261	2.9	7.6	17.8	1.3
FIRST RESOURCES LTD	1,577	1,709	606	99	16.4	9.0	14.2	1.5
GOLDEN AGRI RESOURCES LTD	1,449	8,779	6,472	81	1.2	1.9	18.0	0.3

Note: \* = Last Twelve Months (LTM)

Source: Bloomberg, NHKSI Research

## Financial Summary

### INCOME STATEMENT

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
<b>Revenue</b>	<b>3,699</b>	<b>3,719</b>	<b>4,099</b>	<b>4,320</b>
<i>Growth</i>	-8.0%	0.5%	10.2%	5.4%
COGS	(3,138)	(3,130)	(3,365)	(3,490)
<b>Gross Profit</b>	<b>562</b>	<b>589</b>	<b>734</b>	<b>830</b>
<i>Gross Margin</i>	15.2%	15.8%	18.0%	19.2%
Operating Expenses	(361)	(314)	(347)	(368)
<b>EBIT</b>	<b>301</b>	<b>317</b>	<b>437</b>	<b>513</b>
<i>EBIT Margin</i>	8.1%	8.5%	10.7%	11.8%
Depreciation	387	393	407	413
<b>EBITDA</b>	<b>687</b>	<b>709</b>	<b>843</b>	<b>926</b>
<i>EBITDA Margin</i>	18.6%	19.1%	20.6%	21.4%
Interest Expenses	(1)	(1)	(1)	(1)
<b>EBT</b>	<b>353</b>	<b>363</b>	<b>455</b>	<b>531</b>
Income Tax	(100)	(80)	(113)	(122)
Minority Interest	1.3	0.4	0.5	0.6
<b>Net Profit</b>	<b>254</b>	<b>284</b>	<b>342</b>	<b>409</b>
<i>Growth</i>	-23.4%	11.7%	20.4%	19.4%
<i>Net Profit Margin</i>	6.9%	7.6%	8.3%	9.5%

### PROFITABILITY & STABILITY

	2019/12A	2020/12F	2021/12F	2022/12F
ROE	3.0%	3.3%	3.9%	4.5%
ROA	2.5%	2.7%	3.1%	3.5%
ROIC	3.0%	3.3%	3.9%	4.6%
Cash Dividend (IDR bn)	130	102	120	150
Dividend Yield	1.3%	1.2%	1.5%	1.8%
Payout Ratio	39.1%	40.3%	42.3%	43.8%
DER	20.3%	23.6%	24.7%	28.0%
Net Gearing	6.3%	10.4%	8.2%	8.4%
LT Debt to Equity	0.0%	0.0%	0.0%	0.0%
Capitalization Ratio	0.0%	0.0%	0.0%	0.0%
Equity Ratio	83.1%	80.9%	80.2%	78.1%
Debt Ratio	0.0%	0.0%	0.0%	0.0%
Financial Leverage	120.3%	123.6%	124.7%	128.0%
Current Ratio	469.7%	323.5%	464.3%	513.1%
Par Value (IDR)	100	100	100	100
Total Shares (mn)	6,823	6,823	6,823	6,823
Share Price (IDR)	1,495	1,200	1,200	1,200
Market Cap (IDR tn)	10.2	8.2	8.2	8.2

### BALANCE SHEET

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Cash	1,132	1,426	1,764	2,252
Receivables	367	369	442	413
Inventories	342	395	396	411
<b>Total Current Assets</b>	<b>2,192</b>	<b>2,538</b>	<b>2,948</b>	<b>3,432</b>
Net Fixed Assets	6,328	6,351	6,404	6,475
Other Non Current Asset	432	439	458	446
<b>Total Assets</b>	<b>10,225</b>	<b>10,596</b>	<b>10,971</b>	<b>11,588</b>
Payables	235	274	279	291
ST Bank Loan	-	-	-	-
LT Debt	-	-	-	-
<b>Total Liabilities</b>	<b>1,727</b>	<b>2,022</b>	<b>2,175</b>	<b>2,532</b>
Capital Stock	1,713	1,713	1,713	1,713
Retained Earnings	6,772	6,847	7,069	7,329
<b>Total Equity</b>	<b>8,499</b>	<b>8,574</b>	<b>8,796</b>	<b>9,055</b>

### VALUATION INDEX

	2019/12A	2020/12F	2021/12F	2022/12F
Price/Earnings	40.2x	28.9x	23.9x	20.0x
Price/Book Value	1.2x	1.0x	0.9x	0.9x
Price/Sales	2.8x	2.2x	2.0x	1.9x
PE/EPS Growth	-1.7x	2.5x	1.2x	1.0x
EV/EBITDA	15.7x	12.0x	9.6x	8.3x
EV/EBIT	35.9x	26.7x	18.6x	14.9x
EV (IDR bn)	10,781	8,474	8,136	7,649
Sales CAGR (3-Yr)	-1.3%	-7.8%	0.7%	5.3%
EPS CAGR (3-Yr)	-24.6%	-28.1%	1.1%	17.2%
Basic EPS (IDR)	37	42	50	60
Diluted EPS (IDR)	37	42	50	60
BVPS (IDR)	1,246	1,257	1,289	1,327
Sales PS (IDR)	542	545	601	633
DPS (IDR)	19	15	18	22

### CASH FLOW STATEMENT

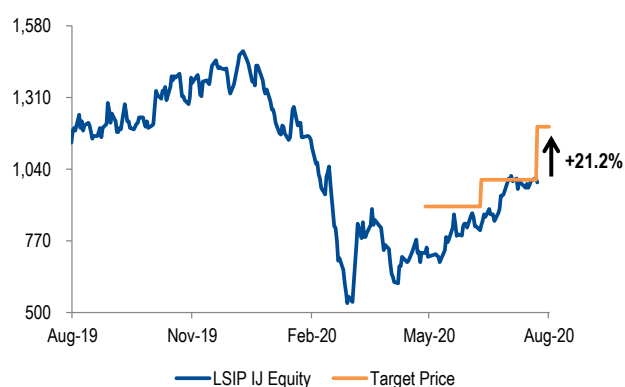
(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Operating Cash Flow	480	927	527	859
Investing Cash Flow	(861)	(444)	(69)	(222)
Financing Cash Flow	(151)	(188)	(120)	(150)
<b>Net Changes in Cash</b>	<b>(532)</b>	<b>295</b>	<b>338</b>	<b>487</b>

Source: Company Data, NHKSI Research

### TOP OWNERSHIP

By Geography	% Shareholders	%
Indonesia	92.7	Salim Ivomas Pratama 59.5
United States	6.7	Dimensional Fund 1.7
Ireland	0.2	Vanguard Group 1.3
Singapore	0.2	Blackrock 0.8

## Closing &amp; Target Price Update



Source: Bloomberg, NHKSI Research

## Rating &amp; Target Price Update

Date	Rating	Target Price	Consensus
2017.10.12	Buy	IDR1,970	IDR1,700
2018.01.05	Buy	IDR1,540	IDR1,750
2018.05.16	Buy	IDR1,380	IDR1,100
2018.08.30	Buy	IDR1,680	IDR1,364
2018.10.05	Buy	IDR1,380	IDR1,170
2020.05.20	Buy	IDR900	IDR1,157
2020.07.02	Buy	IDR1,000	IDR1,028
2020.08.13	Buy	IDR1,200	IDR1,154

Source: NHKSI Research

## NHKSI Stock Ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.
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